FINANCIAL NEWS

Merged Denny's franchisees combine strategies, HQs

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other, with parallel growth and parallel interests."

The merged organization now will have the critical mass to provide substantial savings in general and administrative expenses, according to one analyst, who asked not to be identified. "It was kind of a natural progression," he added.

Consolidating into a single headquarters building is one of several synergies that attracted the companies together. That move alone is expected to shave upward of $2 million in annual expenses, according to William Howard, the former Denwest president and now DenAmerica's vice president and corporate secretary.

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Other efficiencies include the elimination of duplicated staff, the closure of some regional offices, and more efficient insurance and purchasing programs. The merger also will bring together the growth strategies of both companies. AFR had been acquiring smaller regional chains of family restaurants and converting them to Denny's. Denwest pursued acquisition of existing Denny's from other operators along with the construction of entirely new units.

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"We're going to be opportunistic in our growth," Howard explained. "A lot of how we grow depends on the conditions of the marketplace. If the real estate is affordable, we will build more new restaurants. In either case we'll continue making conversions."

Converted Denny's units have yielded higher sales and operating margins than have the company's smaller, less well-known brands. The average annual sales for Denny's units operated by the two companies is about $900,000, with about $100,000 in operating income. For non-Denny's units sales average less than $650,000, and operating profits average $61,000. AFR said its cost of converting restaurants is about $200,000, which leads to an average 17-percent gain in operating income.

In the short term, however, conversions have taken a bite out of earnings. In February AFR posted a first-quarter loss of $385,000, which included a $333,000 write-down for property and equipment at six converted restaurants. The company also took $139,000 in non-cash charges during the quarter, part of $701,000 in amortized preopening costs connected with restaurant conversions.

Historically, both Denwest's and AFR's earnings have fluctuated as acquisitions were made and later assimilated. Operating income as a percentage of sales, however, is expected to increase to about 13 percent with the merger, a gain of about 2 points over the figures for the most recent periods.

DenAmerica has targeted Arizona, Colorado, Oregon, Texas and Utah for development, and Denwest previously had committed to opening about 33 Denny's in several Western states over the next two years through its licensing agreement with Denny's Inc. The company also plans on building some ground-up units in the eastern half of the country.

In September of last year Denwest purchased 25 Kettle Restaurants in the West and Southeast. They are slated for conversion to Denny's by March 1997.

To complete the merger, AFR issued 6,937,500 shares of its common stock, valued at about $27.75 million, warrants for the purchase of another 666,000 shares of AFR's stock and $24.25 million in subordinated notes to the former owners of Denwest in exchange for all of the outstanding capital stock of Denwest. As a part of the merger deal, DenAmerica negotiated a $65 million, six-year credit facility from Banque Paribas, of which $35 million was immediately drawn for previous credit obligations and other expenses.

Closely held Denwest had four primary stockholders: Howard, who had a 23.6-percent stake; former chairman and chief executive Jack Lloyd, who had 47.3 percent; BancBoston Ventures Inc., with 23 percent; and a family trust based in Texas, with 6.1 percent.

Lloyd, who became the largest shareholder of DenAmerica with the merger, was named president of the new company. Miller holds about 1.2 million shares, or 9.2 percent of the company's stock.

Other top managers include William Cox, who is the former vice president of operations at Denny's Inc. and joins DenAmerica as chief operating officer, and Todd Brown, who is the former chief financial officer for Denwest and retains that title at DenAmerica.

"One of our coups was recruiting Bill Cox," Miller pointed out. "He was one of their top operations guys, and getting him over here with us was illustrative of their [Denny's] support and graciousness."

NEWS

Como Inn reorganizes after filing for Chapter 11

CHICAGO — Como Inn, a family-owned Italian restaurant and local institution since 1924, is reorganizing under Chapter 11 bankruptcy protection.

"I'm sure we will come out of this very intelligently and very positively," said Joseph Marchetti, co-owner. "We have resources to take care of our problems. We just need a little time to take care of some of our debts."

Claiming that business has been good although it has slipped some in the last three or four years, Marchetti said he wants to get company finances straightened out before the next generation gets more active in running the restaurant.

The restaurant has about $3.9 million in debts, according to an attorney for the company, and annual sales of more than $10 million.

"We have spent a lot of money upgrading," Marchetti noted. "Maybe we stretched a little too far."

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